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Relationship between Corporate Governance Score and Stock Prices: Evidence from KSE- 30 Index Companies

Saif Ullah Malik*

Abstract

The price of stock like any other commodity goes up and down due to a number of factors. Corporate governance is one of important determinants of stock price. This paper makes an attempt to study exclusively the relationship between corporate governance score and stock prices of a company. The research involves a study of the KSE - 30 index companies. The independent variable (Corporate governance score) and dependent variable (company's share price) have identified for the two years 2009 and 2010. In the analysis our hypothesis corporate governance score and stock prices is significant. Hence, this study concludes that better governed firms have higher stock prices and vice versa. This is due to the fact that better managed firms will perform better and as result stock prices will increase.

Key words: Corporate governance, Stock Prices, Board Independence, Expertise of Audit committee, Remuneration Committee, Nomination Committee, CEO Duality, Existence of Audit committee

1. Introduction

A series of debacles like Enron, WorldCom, and Tyco etc. enforced organizations all over the world to outline strict guidelines for corporate governance (Samontaray, 2010, Shil, 2008 & Wu, 2005) While Benz and Frey, (2007) claimed that these corporate governance mechanisms have failed to prevent these debacles). These developments have taken place globally in terms of political, technical & social issues (Samontaray, 2010) but have been reproduced in the Pakistani corporate world with some necessary changes. However, corporate governance in South Asia is not as developed like in the U.S. or UK (Shil, 2008). The International Monetary Fund has demanded that governance improvements should be included in its debt relief program (as Pakistan is major beneficiary of IMF debt relief program). In 1998, the Organization of Economic Cooperation and Development (OECD) issued its influential OECD Principles of Corporate Governance, which are proposed to assist members and non-member countries in their efforts to calculate and develop the lawful, institutional and regulatory structure for better corporate governance (Bai, Liu, Lu, Song, and Zhang, 2003).

In 2002 the Securities Exchange Commission of Pakistan (SECP) has headed for the idea of establishing a framework of good corporate governance whereby a listed company is managed in compliance with best practices of corporate governance and in exercise of the powers granted by sub-section (4) of section 34 of the Securities and Exchange Ordinance, 1969 (XVII of 1969). The main development in the field of Corporate Governance in Pakistan is the formation of "Pakistan Institute of Corporate Governance" in December 2004. This institution is in its growing stage and should help improve the governance practices being followed in the country (Mubbashir, 2009). Yasser, Entebang and Mansor, (2011) defined corporate governance as "the mode through which entities are managed and governed". Corporate governance is an important idea that relates to the way in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of an organization. It keeps the organization in business and creates a greater scene for future opportunities.

Globally, every country has its own set of rules and regulations such as in some countries this may take the form of laws, as guidelines or social norms. According to Gulzar and Wang, (2010) good corporate governance is very important for the continuity and sustainability of the businesses that maintain economic growth. Besides the board of directors, more non-executive and independent directors, board committees, bylaws and company codes should be introduced in a company. Corporate governance will ensure transparency to satisfy different stakeholders such as suppliers, customers, and creditors. The main objective of corporate governance is to encourage accountability, transparency, fairness, disclosure and responsibility which are core values for the success of all businesses.

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Karachi stock market is one of the leading emerging markets in the world. In Pakistan most businesses are dominated by families where ownership concentration is high which results in weak investor's protection and corporate law enforcement like many other developing countries (Shaheen & Nishat, 2005). Karachi Stock Exchange (KSE) is the oldest and biggest stock exchange of Pakistan. It has been declared as the "Best performing stock market of the world for the year 2002". The Karachi Stock Exchange comprises of four indices, viz, KSE- 30 Index, KSE 100 Index, KMI and KSE All Share Index (www.kse.com).

According to Yasser, Entebang and Mansor, (2011) KSE-30 Index is a standard by which the stock price performance can be compared over a period of time. In particular, the KSE-30 Index is designed to provide investors with the wisdom of how a large company's shares on the Pakistan's equity market are performing. Thus, the KSE-30 Index will be similar to other indicators that follow different sectors of a country's economic activity such as the gross national product, consumer price index, etc. KSE-30 index is calculated using the "Free-Float Market Capitalization" methodology. In accordance with this methodology, the level of index at any point of time shows the free-float market value of 30 companies in relation to the base period. The free-float methodology refers to an index construction methodology that takes into account only the market capitalization of free-float shares of a company for the reason of index calculation. Free-float methodology improves index flexibility in terms of inclusion of any stock from all the listed stocks. This improves market coverage and sector coverage of the index.

2. Objectives of the study

This paper makes an attempt to study whether corporate governance scores have a relationship with the stock price of a company. The price of stock like any other commodity goes up and down due to a number of factors such as sales, EPS, Net Fixed Assets, corporate governance and many other economic variables. However, this paper will only analyze relationship of corporate governance score with stock price. Firstly, the relationship between total corporate governance score and stock prices will be measured. Secondly, the relationship of stock prices with the components of corporate governance (e.g. board independence, expertise of Audit Committee, Remuneration Committee, Nomination Committee, CEO Duality, existence of Audit committee and Frequency of audit committee meeting) will be measured.

3. Literature Review

According to Yasser, (2011) the "word Governance comes from the Greek word kybernan, meaning to steer, guide or govern". In larger terms, governance is the act of governing. It refers to the relationship between the governors and the governed, like the government and the people in a democracy. In other word the decision-making powers are transferred by individuals to those in authority so that the common interests of the country can be served. Off course the ship of state needs a competent captain and team to guide it but it also has to have a clear vision of where it is, where it is going, and how well it is progressing. So governance mechanisms are planned for these purposes.

Fremond and Capaul (2002) defined corporate governance as "property rights of shareholders and the mechanisms of exercising such rights". They further argued that "equity rights are complex property rights". But these depend on profit of the company and its distribution. Corporate governance deals with the ways in which the rights of the corporation's external equity finance providers are protected and they receive a reasonable return. Further this reduces the risk of exploitation of outsiders by insiders and thereby reduces the cost of capital for issuers. While Shaheen & Nishat, (2005) consider it the practice and arrangement through which a firm's business is run with the final objective of increasing shareholder's wealth.

Shareholder rights differ in different firms and an increase in shareholder rights had higher firm value. According to Gompers, P., Ishii, J., Metrick, (2003) corporations are like republics. The final authority lies with shareholders. These shareholders elect directors who delegate most decisions to managers. As in any republic, the real power-sharing link depends upon the particular rules of governance and this power-sharing relationship between investors and managers is defined by the rules of corporate governance. In turn, higher firm value will result in higher stock prices. This relationship should encourage those practices which protect share-holders from managerial self-interest by providing incentives for executives to manage firms in the shareholders' long-term interests (Daily, Dalton, Albert and Cannella, 2003). However, in practice directors are often more loyal to corporate officers than to the shareholders (Khan, Nemati and Iftikhar, 2011).

According to Christopher, Rufus and Ezekiel, (2009), demand and supply factors are the most basic factors that influence price of shares. Government policies, firm's and industry's performance and potentials have an impact on demand behavior of investors, both in the primary and secondary markets. The factors affecting the price of an equity share can be divided into the macro and micro economic outlook. Macro economic factors are politics, general economic conditions such as how the economy is performing and government regulations, etc. The micro factors are the performance and management of the company.

Researchers like Samontaray, (2010) categorized factors affecting share price into three main classes i.e. global factors, domestic factors and local company specific factors. While Khan et al (2011) categorized these factors into two groups i.e. internal factors defined by the officers or stockholders, and the outside forces such as consumer groups and government regulations. Satisfactory corporate governance systems in a country can be formed if the following four steps are taken as proposed by Megginson (2000): (1) changes in corporate and securities laws, (2) strengthening the listing and disclosure requirements for stock exchanges, (3) independent judiciary, and (4) establishing a regulatory body capable of balancing the challenging claims of managers, outside shareholders, and creditors. Corporate governance is not only about election of directors who will make decisions on behalf of shareholders but it is the means of accountability of management (shah et al, 2009). This effort can benefit at large, but in case of failures penalties are also there such as debacles like Enron, WorldCom, and Tyco which resulted in economic failure (Javid and Iqbal 2010) while Wu, (2005) points out that poor corporate governance also breeds corruption (which is a common problem in Pakistan).

The corporate governance mechanisms used to ensure economic efficiency include shareholder monitoring, creditor monitoring, executive remuneration contracts, dividend policy and the regulatory framework of the corporate law regime and the stock exchanges. The increasing international integration, deregulation and technological developments and the resulting challenges are demanding for a review of national corporate governance systems. Countries that are in terrible need of external financing require stronger and efficient corporate governance systems. Pakistan's failure to attract external finance from foreign investors may be mostly due to weak investor protection (Chaudary, Goergen, and Syed, 2006).

Legal reforms and voluntary codes of corporate governance are flourishing around the world but in general the effect of corporate governance on the firm's value remains unclear (Black, Jang and Kim, 2006). The dimensions of legal reforms are: (i) firms that have good governance practices, may have high market value (Black et al, 2005 & Strenger, 2005). (ii) firms may choose different governance practices (Black, 2001). (iii) firms may adopt good governance rules to signal that the firm's insiders will behave well, but in this case the signal, not the firm's governance practices, affects share prices (Black et al, 2006). Share prices are the trading prices for minority shares (Black et al, 2006 & Black et al, 2005).

Black et al, (2006) claimed that there is no strong evidence that better-governed firms are more profitable or pay higher dividends. It is, however, the investors who value the same earnings or the same current dividends more highly for better-governed firms due to less risk. Corporate Governance practice provides a means to know the dream of justify risks and optimize performance at the same time in today's strong regulatory setting. It is evident that if corporate governance is material for a firm's performance and this relationship is fully integrated by the stock market, then stock price should rapidly correct to any relevant change in the firm's governance (Gompers et al, 2003). Corporate Governance lays down an outline for creating long-term trust between company and its stakeholders (Samontaray, 2010). Shaheen and Nishat, (2005) claimed that poorly governed firms (i.e., those with low Governance Scores) have lower valuations, while better-governed firms have higher valuations. So, on the basis of above literature we formulate the following hypothesis:

H1: There is a positive relationship between corporate governance score and stock prices of the company.

3.1 Components of Corporate Governance

3.1.1 Board independence

According to Yasser et al, (2011) Corporate Governance indices grant higher ratings to firms with independent boards. However they claimed that relationship between the percentage of outside directors and a firm's performance is mixed. In Pakistan, Code of Corporate Governance has certain restriction regarding limited companies viz., that executive Directors must not be more than 75% of total board size; also the representation of minority shareholders and independent directors be encouraged.

Corporate Governance Codes recommend that boards should be between 5 to 16 depending on the size and diversification of the organization. According to Gulzar and Wang, (2010) the board shall have a realistic number of members and should be comprised of executive and non-executive directors (including an independent non-executive director) to help effective and objective board management. According to Ghani and Ashraf (2005), a number of empirical studies proposed that business groups, as an organizational form, are more prone to inclusion of minority shareholders. Hence, on the basis of above facts, independent directors safeguard interest of minority shareholders and other stakeholders. So board independence will have a positive impact on the performance of a company which will subsequently have a positive relationship with the stock prices of the company. Hence, our second hypothesis will be

H2: There is a positive relationship between independence of board of directors and stock prices of the company.

3.1.2 CEO Duality

According to Javed and Iqbal (2007) the separation of roles of CEO and chairman weaken the powers of the CEO and increase the board's ability to appropriately perform the oversight judgment. It also critically assesses executive directors and the presence of non-executive members on the board reduces the power of management on the board. Moreover a higher ratio of outside directors on the board leads to higher company performance. A large group of directors would require more time and effort on the part of CEO to agree to a certain action. Therefore, if the board is large, its independence is increased in the sense that the CEO's ability to influence is diluted and it is more difficult for the CEO to dominate the board. Hence, on the basis of the above facts separation of role of CEO and chairman safeguard interests of minority shareholders and other stakeholders. Therefore, separation of roles of the CEO and the chairman will have a positive impact on stock prices of the company. Hence, our third hypothesis will be

H3: There is a positive relationship between separation of CEO and chairman with stock prices of the company.

3.1.3 Existence of Remuneration and Nomination Committees

According to Yasser, (2011) some companies either does not hold AGMs or they are held at far off venues. Also, many companies do not distribute company profit to shareholders. The decision about selection of company executives and fixation of their remuneration is at the discretion of the board but decisions about selection of audit firms with the recommendation of audit committee is in the hands of shareholders. For better governance these matter should be approved on the recommendation of respective committees like the remuneration and nomination committee. Hence, on the basis of the above facts, these committees safeguard the interests of minority shareholders and other stakeholders. So, remuneration and nomination committees will have a positive impact on stock prices of the company. Hence, our fourth and fifth hypotheses will be

H4: There is a positive relationship between Existence of Remuneration Committee and stock prices of the company.

H5: There is a positive relationship between Existence of Nomination Committee and stock prices of the company.

3.1.4 Existence and Expertise of Audit Committee

According to Yasser et al, (2011) the audit committee is responsible for recommending the appointment of external auditor(s), their removal and their remuneration to board of directors.

The committee has the following main objectives:

1. Determining the proper measures to protect company's assets.
2. Reviewing the quarterly and annual financial statements of the Company, before approval by the board of directors.
3. Determining the scope of the audit and assisting external auditors and coordinating with internal and external auditors.
4. Determining the adequacy and effectiveness of internal control systems including financial and operational control, accounting systems and reporting structure.
5. Maintaining compliance with relevant statutory requirements.
6. Maintaining compliance with the best practices of corporate governance.

Hence, on the basis of above important functions performed by audit committees, the existence, expertise and frequency of audit committees meetings will have a positive relationship with the stock prices of the company. Hence, our sixth, seventh and eighth hypotheses will be

H6: There is a positive relationship between Existence of Audit committee and stock prices of the company.

H7: There is a positive relationship between Expertise of Audit committee and stock prices of the company.

H8: There is a positive relationship between Frequency of audit committee and stock prices of the company.

4. Research Design and Methodology

4.1 Sample

The research involves a study of the thirty (30) companies included in the KSE 30 index. For the purpose of this study the independent variable (Corporate governance score) and the dependent variable (company's share price) have been identified for the year 2009 and 2010 and a total of sixty (60) observations were analyzed.

4.2 Data Source and Data Type

The Annual reports of the chosen companies for the year 2009 and 2010 were collected and corporate governance questionnaire filled and for every "yes" one (1) mark was added while a "No" is consider as Zero. Thus the total governance score was calculated for each company and the Share price of these same companies for the period was collected.

4.3 Corporate Governance Measure

Corporate governance is taken from Sawicki, (2009). A questionnaire is comprises of total of nine questions relating to one question each for board independence, Expertise of Audit committee, Remuneration Committee, Nomination Committee, CEO Duality, existence of Audit committee, Frequency of audit committee meeting is measured, big audit firm and shareholder owner ship. Big audit firm is deleted from analysis as all answer were yes.

4.4 Share Price

The share price has been taken as a dependent variable; therefore, it is necessary that appropriate share price value should be taken for the analysis. As proposed by Samontaray, (2010) for this purpose a broad calculation of share price was taken. At first, daily closing share price of each company was taken.

Annual Average Share Price = Sum of daily closing Share Price/Number of Days Share is traded

4.5 Methodology

According to objectives of the study firstly, a relationship between total corporate governance score and stock prices is measured. Secondly, the relationship of stock prices with component of corporate governance (e.g. board independence, Expertise of Audit committee, Remuneration Committee, Nomination Committee, CEO Duality, existence of Audit committee and Freq. of audit committee is measured. Hence, corporate governance score will be calculated as:

Corporate Governance Score (CGS) = Board independence + Expertise of Audit committee + Existence of Remuneration Committee + Existence of Nomination Committee + CEO Duality + Existence of Audit committee + Freq. of audit committee

5 Results

6 Table I: Correlation

Pearson Correlation	1	2	3	4	5	6	7	8	9	10
Stock Prices	1									
Corporate Governance Score	.713**	1								
Board Independence	.220	.400**	1							
CEO Duality	.006	-.161	-.292*	1						
Shareholder Ownership	.151	.383**	.180	-.616**	1					
Existence of Audit Committee	.122	.329*	.135	-.039	.024	1				
Freq. of Audit Committee Meeting	.175	.427**	-.183	-.118	.073	.332**	1			
Expertise of Audit Committee	.551**	.582**	-.154	-.211	.442**	.055	.165	1		
Existence of Remuneration Committee	.478**	.726**	.031	-.040	.174	.139	.419**	.393**	1	
Existence of Nomination Committee	.618**	.712**	.342**	-.197	.284*	.085	.043	.438**	.248	1

Table II: Regression analysis**Model Summary^b**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Durbin-Watson
					R Square Change	F Change	Sig. F Change	
1	.713 ^a	.508	.499	67.06569	.508	59.827	.000	2.343

a. Predictors: (Constant), Corporate Governance Score

b. Dependent Variable: Stock Prices

Table III: ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	269090.832	1	269090.832	59.827	.000 ^a
	Residual	260872.768	58	4497.806		
	Total	529963.600	59			

a. Predictors: (Constant), Corporate Governance Score

b. Dependent Variable: Stock Prices

Table IV: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-163.226	36.144		-4.516	.000
	Corporate Governance Score	51.212	6.621	.713	7.735	.000

a. Dependent Variable: Stock Prices

Table V: Component wise Regression analysis, Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Durbin-Watson
					R Square Change	F Change	Sig. F Change	
1	.780a	.608	.547	63.79922	.608	9.900	.000	2.506

a. Predictors: (Constant), Existence of Nomination Committee, Freq. of Audit Committee Meeting, CEO Duality, Existence of Audit Committee, Expertise of Audit Committee, Existence of Remuneration Committee, Board Independence, Shareholder Ownership

b. Dependent Variable: Stock Prices

Table VII: Component wise ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	322376.230	8	40297.029	9.900	.000 ^a
	Residual	207587.370	51	4070.341		
	Total	529963.600	59			

a. Predictors: (Constant), Existence of Nomination Committee, Freq. of Audit Committee Meeting, CEO Duality, Existence of Audit Committee, Expertise of Audit Committee, Existence of Remuneration Committee, Board Independence, Shareholder Ownership

b. Dependent Variable: Stock Prices

Table VIII: Component wise Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-44.255	75.314		-.588	.559
	Board Independence	46.228	21.227	.246	2.178	.034
	CEO Duality	64.255	40.023	.189	1.605	.115
	Shareholder Ownership	-57.086	64.204	-.109	-.889	.378
	Existence of Audit Committee	-7.984	70.169	-.011	-.114	.910
	Freq. of Audit Committee Meeting	22.579	29.980	.082	.753	.455
	Expertise of Audit Committee	111.723	32.257	.424	3.463	.001
	Existence of Remuneration Committee	39.035	20.171	.207	1.935	.059
	Existence of Nomination Committee	74.259	22.597	.362	3.286	.002

a. Dependent Variable: Stock Prices

6. Empirical Results Discussion

Cross-sectional regression analysis using SPSS 17 is used in this study. The first analysis is based on a correlation table which establishes the relationship between variables. Our correlation results show that corporate governance has 0.713 correlations at sig level .000 with stock prices which mean 71.3% correlation with each other. According to Samontaray, (2010) correlation of above 0.5 will show that the two variables have a high correlation and hence are dependent upon each other.

It should be noted that under such conditions the p-value must be less than 0.05 (to have significant dependency). This indicates the fact that independent variables are independent in a true sense. The Pearson correlation coefficients between the independent variables (i.e., corporate governance score) and between dependent variables (i.e., share price) were less than 0.90, indicating the data are not affected by serious co linearity problem (Hair et al., 1998). Component wise analysis shows that expertise of audit committee, existence of remuneration committee and existence of nomination committee has positive significant relationship with correlation of .551, .478 and .618 respectively at a significant level of .000 while board independence, CEO duality, shareholder ownership and existence of audit committee are not significant.

Then it is analyzed whether the model is fit or not to use. According to Samontaray, (2010) 'R' is the multiple correlation coefficients, that is, the correlation between the observed and predicted values of the dependent variable. A high 'R' value will mean that relationship is stronger. On the other hand, R squared is the magnitude of variation in the dependent variable explained by the regression model. Also, adjusted R squared tries to correct R squared to more closely show the goodness of fit of the model in the population. If R squared and Adjusted R squared is close to each other, it shows better model fit. In our study it has been found that we have R square value more than 0.5 and adjusted R square value is close to R square value. This proves that data is fit to be used and the model that has been chosen for it is equally fit. In our model summary we take the total score of corporate governance as independent variable while stock prices as dependent variable. Main variable corporate governance has R squared .595 which means that corporate governance has 59.5% impact on stock prices and Adjusted R squared value is .499 which is close to R squared value. This level of predictability is low but we know stock prices are also affected by many variables. However, in this analysis we are taking only corporate governance excessively. So this level of predictability is sufficient. Component wise analysis has R squared value of .608 and adjusted R squared value as .547

In the ANOVA table, it can be seen that the regression sum of squares is more than residual sum of squares in corporate governance. According to Samontaray, (2010) a model with a large regression sum of squares in comparison to the residual sum of squares indicates that the model accounts for most of the variation in the dependent variable. Also, if the significant value of the F statistic is small (smaller than say 0.05) then the independent variables do a excellent job explaining the variation in the dependent variable. As the independent variables are measured in different parts, the standardized coefficients are efforts to make the regression coefficients more comparable. In our analysis our main hypothesis regarding corporate governance and stock prices has 59.827 F value at significant level .000 while component wise analysis has 9.900 F value at significant level of .000

According to Samontaray, (2010) for better comparison and analysis, t statistics should be used. The t statistics helps in finding the relative importance of each variable in the model. Any t value more than 2 and less than -2 is considered as useful predictors of the variable in the model. In our analysis our main hypothesis regarding corporate governance score and stock prices has 7.735 t value at significant level .000 which is very high and acceptable while our component wise analysis board independence has 2.178 t value at sig level .034, CEO duality has 1.604 at sig level .115, shareholder owner ship has -.889 at sig level .378, existence of audit committee has -.114 at sig level .910, Freq. of audit committee meeting has .753 at sig level .001, existence of remuneration committee has 1.935 at sig level .059 and existence of nomination committee has 3.286 at sig level .002.

There is no specific study on this topic in Pakistan; however, this study confirmed the finding of a number of studies. Samontaray, (2010) conducted study in India and found significant relationship between share price (dependent variable) and corporate governance score (independent variables) using cross-sectional regression analysis. This study also confirmed this positive relationship between corporate governance score and stock prices. Bai et al, (2003) found that both factors i.e. a large holding by the largest shareholder and the CEO being the chairman or vice chairman of the board of directors, have negative effects on share prices but our study contradict these results. The reason may be that Pakistani companies are dominated by large shareholders, hence our data did not show the relationship with stock prices as our majority answer was "no". in our study for every no there was zero mark hence, sample did not show relationship with stock prices. The CEO being the chairman or vice chairman of the board of directors is also not significant.

This study also confirmed the findings of following studies. Black, (2001) examined the relationship between corporate governance behavior and market value for a sample of 21 Russian firms and suggested that corporate governance behavior has a powerful effect on market value in a country where legal and cultural constraints on corporate behavior are weak. This study also confirmed above mentioned finding. Black, (2006) found a causal relationship between an overall governance index and higher share prices in emerging markets, however, this study only analyze simple relationship. They also found that Korean firms with 50% outside directors have 0.13 higher Tobin's q (roughly 40% higher share price), after controlling for the rest of *KCGI*. They report the first evidence consistent with greater board independence, thus causally predicting higher share prices in emerging markets. Black, love and Rachinsky, (2005) found increasing evidence that broad measures of firm-level corporate governance predict higher share prices. They found an economically important and statistically strong correlation between governance and market value both in OLS and in fixed effects regressions with firm-index fixed effects. Gompers et al, (2003) created G-Index; a summary measure of corporate governance based on 24 firm-specific provisions, and showed that more democratic firms are more valuable. This study also finds that firms should be run more democratically through committees.

7. Research Findings and Conclusion

- **Corporate Governance as significant variable:** Corporate governance is significantly related with the share prices of a company hence, we will accept our Hypothesis H1.
- **Board Independence as non significant variable:** Board independence is not significantly related with the share price of a company and hence, we will reject our Hypothesis H2.
- **CEO duality as non significant variable:** CEO duality has not significantly affected the share price of a company and hence has been indifferent to their share price value as in our sample majority of companies have a separate CEO and Chairman so, results show indifferent behavior. Hence, we will reject our Hypothesis H3.
- **Existence of Remuneration Committee as significant variable:** Existence of Remuneration Committee is significantly related to the share price of a company and hence, we will accept Hypothesis H4.
- **Existence of Nomination Committee as significant variable:** Existence of Nomination Committee is significantly related with the share price of a company and hence, we will accept Hypothesis H5.
- **Existence of Audit Committee as non significant variable:** Audit committee has not significantly affected the share price of these listed companies hence we will reject Hypothesis H6.
- **Expertise of Audit committee as significant variable:** Expertise of Audit committee is significantly related with the share price of a company and hence, we will accept Hypothesis H7.
- **Frequency of audit committee as non significant variable:** Frequency of audit committee is not significantly related to the share price of these listed companies hence, we will reject Hypothesis H8.

This is clear from the above result that corporate governance is a very important determinant of stock prices of the firms. Those firms who want to enhance their stock prices should implement governance reforms. Higher corporate governance score will lead to higher firm valuation and higher stock prices and vice versa. This is due to the fact that better managed firms will perform better and as result stock prices will increase. This also show investor confidence in the firm as, if proper corporate governance mechanism is implemented investor feel greater confidence and risk of firm will reduce.

8. Limitations of study

As mentioned in the introduction stock prices have many determinants of which corporate governance is one of them. In most studies many variables are taken but this study exclusively analyzes the relationship between corporate governance and stock prices. However, many other important determinants of stock price are not taken in this study.

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Appendix: A

Sr. #	Name	Sr. #	Name	Sr. #	Name
1	OGDCL	11	ABL	21	Bank Al-Falah
2	PPL	12	PSO	22	Millat Tractors Ltd
3	MCB	13	HUB	23	Adamjee Insurance
4	HBL	14	KAPCO	24	D.G Khan cement Company
5	NBP	15	FFC BIN QASIM	25	INDUS MOTORS
6	FFC	16	BANK AL HABIB	26	Jahangir Siddique & Co.
7	UBL	17	APL	27	Attock refinery ltd
8	POL	18	NRL	28	Arif habib ltd
9	PTCL	19	LUCKY CEMENT	29	Mari gas company ltd
10	ENGRO	20	NISHAT MILLS	30	Nishat (chunian) Ltd.